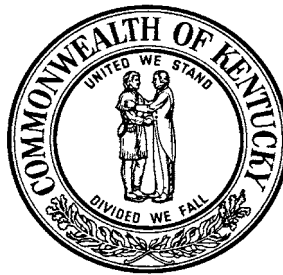


**REPORT OF THE AUDIT OF THE
LESLIE COUNTY
CLERK**

**For The Year Ended
December 31, 2001**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net

144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LESLIE COUNTY CLERK

**For The Year Ended
December 31, 2001**

The Auditor of Public Accounts has completed the Leslie County Clerk's audit for the year ended December 31, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$10,996 from the prior calendar year, resulting in excess fees of \$12,013 as of December 31, 2001. Revenues increased by \$351,441 from the prior year and disbursements increased by \$340,445.

Report Comments:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits were uninsured and unsecured in the amount of \$30,731.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES	3
NOTES TO FINANCIAL STATEMENT	6
COMMENTS AND RECOMMENDATIONS	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Kenneth Witt, Leslie County Judge/Executive
Honorable James Lewis, Leslie County Clerk
Members of the Leslie County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Leslie County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Kenneth Witt, Leslie County Judge/Executive
Honorable James Lewis, Leslie County Clerk
Members of the Leslie County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated April 15, 2003, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 15, 2003

LESLIE COUNTY
JAMES LEWIS, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2001

Receipts

State Fees For Services		\$	5,015
Fiscal Court:			
Contribution			6,683
Equipment Grant			48,070
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	264,425	
Usage Tax		311,114	
Tangible Personal Property Tax		563,001	
Licenses-			
Fish and Game		10,581	
Marriage		4,520	
Deed Transfer Tax		10,012	
Delinquent Tax		<u>317,752</u>	1,481,405
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	7,242	
Real Estate Mortgages		7,831	
Chattel Mortgages and Financing Statements		38,602	
Powers of Attorney		348	
All Other Recordings		20,867	
Charges for Other Services-			
Candidate Filing Fees		1,386	
Copywork		<u>13,860</u>	90,136
Other:			
Miscellaneous			7,316
Interest Earned			<u>1,445</u>
Total Receipts		\$	1,640,070

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY
 JAMES LEWIS, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2001
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-			
Licenses and Transfers	\$	213,585	
Usage Tax		301,716	
Tangible Personal Property Tax		237,186	
Licenses, Taxes, and Fees-			
Fish and Game		10,401	
Delinquent Tax		39,611	
Legal Process Tax		10,251	
Candidate Filing Fees		1,260	
		<u>1,260</u>	\$ 814,010

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	74,219	
Delinquent Tax		47,640	
Deed Transfer Tax		<u>9,512</u>	131,371

Payments to Other Districts:

Tangible Personal Property Tax	\$	229,076	
Delinquent Tax		<u>145,493</u>	374,569

Payments to Sheriff 7,264

Payments to County Attorney 59,375

Operating Disbursements and Capital Outlay:

Personnel Services-			
Deputies' Salaries	\$	98,482	
Contracted Services-			
Printing and Binding		1,746	
Materials and Supplies-			
Office Supplies		<u>1,973</u>	102,201

LESLIE COUNTY

The accompanying notes are an integral part of this financial statement.

JAMES LEWIS, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2001
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Other Charges-		
Conventions and Travel	\$	4,304
Dues		400
Postage		4,252
On line Service		1,087
Bank Adjustment		185
Returned Checks		9,056
Refunds		4,141
Miscellaneous		677
		<u>24,102</u>
Capital Outlay-		
Equipment Purchase		<u>48,070</u>
Total Disbursements	\$	<u>1,560,962</u>
Net Receipts	\$	79,108
Less: Statutory Maximum		61,306
Less: Training Incentive		<u>2,189</u>
Excess Fees	\$	15,613
Less: Expense Allowance		<u>3,600</u>
Excess Fees Due County for 2001	\$	12,013
Payments to County Treasurer - February 27, 2002		<u>12,013</u>
Balance Due at Completion of Audit	\$	<u><u>0</u></u>

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months and 6.41 percent for the last six months of the year.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 10, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$30,731 of public funds uninsured and unsecured.

Note 4. Equipment Grant

The County Clerk received an equipment grant in the amount of \$48,500. The grant was passed through the fiscal court from the Department for Local Government. The Department for Local Government authorized certain capital projects for local administration from the coal severance tax project plan of House Bill 502. The purpose of the grant is to purchase equipment and software to electronically scan and record county records. The grant had a balance of \$48,500 at January 1, 2001. During 2001, the grant activity consisted of \$599 of interest income and \$48,069 of expenditures. The remaining balance is \$1,030 as of December 31, 2001.

Note 5. Condemnation Account

The County Clerk has a bank account that had a balance of \$2,554 on December 31, 2001. From the information made available to the auditors, it appears this is the result of unclaimed property money. According to KRS 393.090, property is considered abandoned after seven years and escheats to the Kentucky State Treasurer. The Leslie Circuit Court ordered this condemnation account be established. Therefore, the County Clerk should work with the Circuit Court in determining the disposition of these funds.

THIS PAGE LEFT BLANK INTENTIONALLY

COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
JAMES LEWIS, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2001

STATE LAWS AND REGULATIONS:

The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On April 10, 2001, \$30,731 of the County Clerk's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County Clerk require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Clerk's Response:

Continue to work with the bank to get proper coverage.

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks an adequate segregation of duties because the Clerk is solely responsible for recording transactions and preparing financial statements. The Clerk has authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. However, in being solely responsible for these duties, the Clerk is compromising the internal control structure of his office. Having only one individual who is responsible for all duties increases the risk that misstatements or errors may occur and not be detected in a timely manner. The Clerk should delegate some duties to other employees to help strengthen the internal control structure of his office. For example, an employee could prepare disbursement checks, which would then be reviewed by the Clerk before he signs the checks. Further, the duties of recording transactions, compiling financial statements and preparing bank reconciliations should be delegated among different employees. We recommend the Clerk implement and develop procedures to help strengthen the internal control structure of his office.

County Clerk's Response:

Clerk is ultimately responsible for office, bottom line is everything comes back to the feet of the clerk. I cannot pass this on to anyone else.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Kenneth Witt, Leslie County Judge/Executive
Honorable James Lewis, Leslie County Clerk
Members of the Leslie County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the Leslie County Clerk for the year ended December 31, 2001, and have issued our report thereon dated April 15, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Leslie County Clerk's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Leslie County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations section.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 15, 2003

